BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of PUBLIC UTILITIES COMMISSION Instituting a Proceeding to Investigate the Implementation of Feed-in Tariffs.	))))))))	DOCKET NO. 2008-0273

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PUBLIC UTILITIES COMMISSION

HAWAII SOLAR ENERGY ASSOCIATION'S COMMENTS TO SCOPING PAPER

AND

CERTIFICATE OF SERVICE

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<u>COMMENTS TO SCOPING PAPER</u>

TO THE HONORABLE PUBLIC UTILITIES COMMISSION OF THE STATE OF HAWAII:

HAWAII SOLAR ENERGY ASSOCIATION ("HSEA") hereby submits to the Hawaii Public Utilities Commission (the "Commission") its preliminary comments on the Scoping Paper on feed-in tariffs, "Feed-in Tariffs: Best Design Focusing Hawaii's Investigation", issued by the Commission on December 11, 2008. HSEA notes that the purpose of the scoping paper is to advance and focus the discussion of issues relevant to the development of a PBFiT. HSEA asks that the Commissioners interpret its response here in this same light, and that given the early stage of the proceeding, that nothing stated below be considered HSEA's final position on any issue commented on in this document. HSEA specifically reserves its right to change position on any issue raised here. HSEA also notes that the 29 questions included in Appendix C of the scoping paper do not constitute an complete list of all relevant issues. HSEA looks forward to discussing these additional issues as part of this proceeding.

Comments:

LEGAL ISSUES

1, 2, 3. To this point HSEA has not employed counsel to assist in these proceedings. HSEA therefore does not take a position on the legal questions (questions 1, 2 and 3) raised in the scoping paper. HSEA nonetheless recognizes the importance of each question and all of its subparts and may later in these proceedings retain counsel in order to most effectively engage on these issues.

Other Threshold Issues

4. HSEA agrees that the current suite of rules, laws, and incentive is neither comprehensive nor efficient. HSEA further feels that the independent purpose of each in relation to the others has not been made clear as part of the establishment of each of these and that the feed-in-tariff design would benefit from comparison with, and contextualization within, the existing incentive structure. In general, HSEA recognizes several reasonable ways to allocate applicability of the existing rules/laws listed in this section of the scoping across various project types and customer classes. HSEA also believes that any feed-in-tariff most likely cannot supplant all of these existing initiatives and that it is critical to define the appropriate realm in which each ought optimally to apply. For example, HSEA believes that under many of the possible feed-in-tariff structures, net energy metering for residential systems is both superior public policy and economically preferable for the households themselves. These sorts of issues require that at least knowledge of customer class, technology type, and the ultimate structure of the feed-in-tariff itself must be determined as part of the process and cannot be unambiguously disentangled at this point when much of the information required to inform effective decision-making is

currently unavailable or has not yet been created must be created.

Process and General Feed-in-Tariff Issues

5. HSEA recognizes a substantial public and ratepayer interest in developing sound, effective, and appropriate policy through this proceeding. Nonetheless, HSEA's members, and installers and integrators of solar systems face an unintended consequence of the feed-in-tariff development process that does not have a similar impact on some other parties to this proceeding. This results from the financial uncertainty that a feed-in-tariff 'under development' has on the ability to provide prospective customers with pro forma financials for solar investments. That is, the customers of HSEA's member companies are unable to calculate the rate of return on their investments in solar systems without the information that will be the product of this proceeding. This has essentially put on hold the market for commercial solar in 2009 in Hawaii. HSEA therefore supports the aggressive schedule put forth for this proceeding.

6. HSEA is not prepared to comment on this issue at this time.

7. HSEA is not able to provide this quantitative analysis at this time.

8. HSEA is not able to provide this quantitative analysis at this time.

9. Given the economic and strategic concerns associated with an oil-based energy regime, Hawaii would be best served by a system that encourages renewable penetration as quickly as possible.

10. A period of 2-3 years is a reasonable initial estimate for this time. However, it is possible that the events will reveal the need for this interval to be shorter for one or more technologies and it would be useful to embed this flexibility in the overall tariff structure.

PBFiT General Design Issues

11. HSEA does not believe that all technologies require a PBFiT.

12. HSEA believes that PBFiTs should be established at different paces. As noted elsewhere in this response, HSEA's member companies and their clients are already being stymied by the uncertainty regarding the ultimate structure of the PBFiT as it applies to solar projects. All else equal, this argues for prioritizing solar and other technologies that are experiencing this marketplace disruption. HSEA is not aware of which, if any, other technologies are already experiencing this challenge.

13. HSEA believes that goals are superior to caps. The goals should vary by technology and should reflect the impact that the technology has on the grid so that an optimal mix could be achieved. To this end, goals should be based on estimated generation (as measured by kW or kWh) as opposed to dollars.

14. In tandem with the PBFiT implementation process it would be helpful to reduce existing limitations regarding interconnection/integration to the grid to the extent that is reasonably possible. Remaining limitations should be periodically evaluated to determine the extent to which they can be father reduced. Limitations that remain should be treated as a development costs.

Specific Tariff Design Issues

15. The term should vary based on factors such as the estimated economic life of the technology involved. HSEA is aware that this varies by technology but is not aware of the specific lifetimes for technologies that its member companies do not work with. For PV, based on current technology, this term would be approximately 20 years. HSEA also notes that, given the enormous amount of investment currently under way in the renewable energy sector, it may be prudent to have the flexibility to change these terms for new projects over time, if this could be done in an orderly and predictable manner that would not introduce unneeded uncertainty into the investment calculations for renewable energy projects.

16. Determining a PBFiT's applicability to gross or net production would best be left to the customer/generator because the optimal outcome will be a function of the size of non-uniform factors such as technology, demand, and time of use, as they interact with the PBFiT itself.

17. This question cannot be answered without knowing more about the PBFiT regime.

18. HSEA believes that this question is not answerable as stated because appropriate inflation varies depending on the design of the tariff. If the tariff rate was intended to be relatively higher in earlier periods and low in later periods it may be possible to have a modest indexing factor. If, in contrast, the tariff begins lower the indexing will need to be more aggressive in order to produce returns sufficient to entice investors. As a general point, HSEA believes that indexing should be considered simultaneously with payment levels and that only in this linked context can the proper answer to the question be determined.

19. RPS requirements should be the starting point of PBFiT eligibility. To avoid conflict of interest, utility affiliates should not be eligible for PBFiT absent extremely strict third party oversight.

20. No comment at this time.

21. The extent, if any, to which PBFiT prices should be time differentiated should vary by factors such as technology and customer type.

22. Leverage rate are variable on a project basis by, at least, technology type/economic life, financing strategy, and borrowing costs.

23. This is an empirical question that HSEA does not have the answer to but views as an important part of the tariff design process.

24. HSEA believes that the reasonable return needs to be set higher on earlier projects. This is important to jumpstart the program and drive the interconnection of DG during the investment and construction phase of potential larger scale projects contemplated in the Energy Agreement/Clean Energy Initiative process. The fact that periodic adjustments of the rates are contemplated means that a mechanism exists for addressing potential problems with initial rate setting.

25. The credit crunch and related economic problems substantially affect financing costs. This is

due at least to (a) higher borrowing costs and (b) the higher investor returns required to place tax equity (for projects for which there are federal and/or state tax incentives) due to the reduced appetite for such incentives in a context of lower overall profitability and commensurately reduced demand for tax incentives.

Related Issues

26. HSEA is not prepared to provide this at this time.

27. HSEA does not take a position on this issue at this time but nonetheless recognizes its importance and may later conduct additional investigation on the issue as appropriate/necessary during the proceedings.

28. HSEA does not take a position on this issue at this time but nonetheless recognizes its importance and may later conduct additional investigation on the issue as appropriate/necessary during the proceedings.

29. PBFiT should not require developers to assign credits to the utility as a condition of purchase. These credits are the property of the developer and as such should be under the complete control of the developer, including the ability of the utility to apply them for various regulatorially and/or statutorially mandated purposes.

Respectfully submitted.

DATED: Honolulu, Hawaii, December 31, 2008.

MARK DUDA
PRESIDENT, HSEA

CERTIFICATE OF SERVICE

The foregoing Comments to Scoping Paper was served on the date of filing by mail, postage prepaid, hand delivery, or electronically transmitted to each such Party.

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DATED: Honolulu, Hawaii, December 31, 2008.

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